

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 FPC-01 INT-08 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 SS-20

NSC-10 DODE-00 PA-04 USIA-15 PRS-01 L-03 SCEM-02

SCI-06 DRC-01 /162 W

----- 049876

R 090130Z JAN 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 223

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY TOKYO

LIMITED OFFICIAL USE JAKARTA 0284

E.O. 11652: N/A

TAGS: EMIN, ID

SUBJECT: ALCOA AND THE ASAHAN PROJECT

REF: A. TOKYO 11503; B. JAKARTA 10386; C. TOKYO 0044

1. SUMMARY. CHIEF OF ALCO'S INDONESIAN OPERATION REPORTED DECEMBER 28 THAT PRESS REPORTS OF BASIC AGREEMENT REACHED IN TOKSO BETWEEN GOI, GOJ AND JAPANESE FIRMS ON ASAHAN WERE CORRECT. JAPANESE AGREED TO REVERSION OF ASAHAN POWER PROJECT TO GOI IN 30 YEARS. ALCOA BELIEVES IT HAS ONLY ADEQUATE COMMERCIALY EXPLOITABLE BAUXITE HOLDINGS IN INDONESIA (THOUGH IT IS KNOW OTHERS EXIST), BUT AT THIS STAGE HAS NOT DECIDED WHAT ROLE IT WILL PLAY IN ASAHAN. ALCOA WILL NOT PARTICIPATE, HOWEVER, IN POWER PROJECT AND MAY PARTICIPATE IN SMELTER. END SUMMARY.

2. JAMES C. POST, PRESIDENT DIRECTOR, ALCOA MINERALS OF INDONESIA CALLED ON AMBASSADOR DECEMBER 28 TO REVIEW LATEST LIMITED OFFICIAL USE
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DEVELOPMENTS IN ASAHAN POWER AND ALUMINUM REDUCTION PROJECT AND ALCOA'S CONTINUING BAUXITE EXPLORATION ACTIVITIES. POST STATED THAT PRESS RECRTS THAT GOI INVESTMENT BOARD DEPUTY CHAIRMAN SUHUD HAS REACHED A "BASIS AGREEMENT" WITH JAPANESE (REF C)

REGARDING "\$600 MILLION POWER AND ALUMINUM PROJECT AFOR ASAHAN IN NORTHERN SUMATRA" WERE CORRECT. HE SAID THAT HE HAD RECEIVED MINUTES OF NOVEMBER MEETINGS THAT SUHUD HAD IN TOKYO AND THAT GOI AND JAPANESE WERE "MILES APART" AT THAT TIME AND THAT A LOT OF WORK HAD BEEN DONE IN TOKYO MEETINGS LATE DECEMBER TO REACH THIS BASIC AGREEMENT. HE CONFIRMED THAT JAPANESE HAD ACCEDED TO GOI POSITIOMTHAT ASAHAN POWER PROJECT WOULD REVERT TO GOI IN 30 YEARS AND THAT THIS BASED ON GOI WILLINGN*SS TO DEPRECIATE POWER PLANT OVER PERIOD OF FIFTY YEARS WITH GOI MAKING ANNUAL PAYMENTS TO JAPANESE FOR REMAINING TWENTY YEARS OF DEPRECIATION. POST SAID THAT PRESIDENT SUHARTO HAD DIRECTED THAT A "LETTER OF BASIC INTENT "BE DRAWNN UP FOR SIGNING DURING VISIT OF JAPANESE PM TANAKA IN MID-JANUARY.

3. POST CONFIRMED AMBASSADOR'S BELIEF THAT GOJ TO BE INVOLVED IN FINANCING SINCE TERMS FOR POWER PLANT INVOLVED THREE PERCENT INTEREST FOR 30 YEARS AND SAME INTEREST RATE FOR 25 YEARS FOR SMELTER. HE ADDED THAT ALCOA HAD NOT BEEN INVOLVED IN TALKS HAVING DECLARED IT NOT RPT NOT IN*ERESTED IN PARTICIPATING IN HYDRO PORTION OF PROJECT AND THAT "WAS STILL ALCOA'S POSITION". ALCOA WASH, HOWEVER, INTERESTED IN SMMLTER PROJECT IF CERTAIN CONDITIONS WERE MET, BUT POST DID NOT MENTION WHAT THOSE CONDITIONS MIGHT BE. HE SAID THAT NUMBER OF GOI MINISTERS HAVE ASKED "WHERE DOES ALCOA FIT IN?", INDICATING THEY HAD TOLD PRESIDENT SUHARTO THAT ALCOA HAD NOT RPT NOT BEEN INVOLVED IN TOKYO DISCUSSIONS AND THAT TH*Y DO NOT KNOW ALCOA'S POSITION.

4. POST COMMENTED THAT ALCOA HAS SURVEYED ENTIRE INDONESIAN ARCHIPELAGO SINCE 1969 FOR BAUXITE, AND NOW RPT NOW ENGAGED IN DETAILED ANALYSIS OF MAJOR FINDS INSN AGANST KALIMANTAN. HE SAID BAUXITE EXISTS ELSEWHERE IN INDONESIA BUT NOT RPT NOT IN AMOUNTS SUFFICIENT TO SUPPORT PROPOSED 200,000 TON SMELTER. HE NOTED JAPANESE HAD ACCESS TO THESE OTHER BAUXITE AREAS BUT WOULD PREFER TO WORK WITH ALCOA. POST SAID ALCOA HAD NUMBER OF OPTIONS E.G. EXPORT BAUXITE, BUILD REFINERY AND EXPORT ALUMINA AND PRTICIPATE

IN ASAHAN SMELTER AND E*PORT ALUMINUM INGOT. HE SAID ALCOA WOULD LIMITED OFFICIAL USE
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NOT RPT NOT BUILD ITS OWN SMELTER BECAUSE OF THE POWER REQUIREMENTS. HE ADDED THAT HE NOT RPT NOT CERTAIN GOI WOULD APPROVE ANY PROJECT THAT INVOLVED EXPORT OF ANY PRODUCT LESS THAN ALUMINUM INGOT. MEANWHILE, DETAILED COMPUTERIZED ECONOMIC ANALYSIS IS GOING FORWARD AT ALCOA HEADQUARTERS IN ORDER MEET TERMS OF ITS AGREEMENT WITH GOI WHICH REQUIRES DECLARATION IN NOVEMBER 1974 OF ITS FINAL DECISION ON EXPLOITATION ITS CONCESSION AND WHICH AREAS TO BE GIVEN UP. HE SAID PRESENT HOPES
HING IN S.W. KALIMANTAN
COULD "SUPPLY A MAJOR SMELTER FOR FIFTY YEARS" AND ADDED THAT JAPANESE SIMPLY DO NOT RPT NOT HAVE THAT MUCH BAUXITE HERE IN INDNTESIA, THOUGH THEY COULD, HE NOTED "SUPPLY BAUXITE TO ASAHAN

SMELTER FROM AUSTRALIA" SINCE COST OF ASAHAN HYDRO POWER CONSTRUCTED WITH THREE PERCENT INTEREST MONEY WOULD BE CHEAP.

5. AMBASSADOR NOTED THAT IT APPEARS THAT ALCOA HAS OPTIONS BUT THAT GOI MAY NOT REPORT NOT LOOK UPON ITS AGREEMENT WITH ALCOA IN SAME WAY AS ALCOA AND THAT WITH JAPAN COMMITTING SUCH A MAJOR PORTION OF THE FUNDING GOI MAY ASSUME JAPANESE AND ALCOA ARE WORKING TOGETHER. POST AGREED BUT SAID ALCOA HAD NOT DECIDED WHETHER OR HOW TO WORK WITH JAPANESE. AMBASSADOR THEN ASKED IN JAPANESE MAY NOT REPORT NOT HAVE OTHER SOURCES OF BAUXITE THAN THOSE MENTIONED. POST OBSERVED THAT KAISER AND SOME IN AUSTRALIA BUT NOTHING TO COMPARE WITH ALCOA'S INDONESIAN SOURCES.

6. POST SAID THAT THERE WERE MANY PERMUTATIONS INVOLVED AND THAT AFTER MAJOR DECLARATION DUE IN NOVEMBER 1974 THEY HAD ONE YEAR TO ACT. HE SAID FOR EXAMPLE THERE WAS QUESTION OF KNOW-HOW AND THAT JAPANESE TECHNOLOGY WAS BEHIND THAT OF ALCOA. POST

COMMENTED THAT ALCOA'S LATEST DEVELOPMENT WAS ONLY IN PILOT STAGE AND ABOUT TO START COMMERCIAL APPLICATION BUT THAT JAPANESE HAD WANTED TO PURCHASE THIS TECHNOLOGY EVEN THOUGH NOT REPORT NOT PROVEN COMMERCIALLY. POST SAID THAT MARKET FOR INGOT WAS WORLDWIDE AND THAT ALCOA WOULD NOT REPORT NOT WANT TO TIE ITS INDONESIAN PRODUCTION TO JAPANESE MARKET. HE ADDED THAT NUMBER OF U.S. SMELTERS WERE SHUTTING DOWN BECAUSE OF POLLUTION PROBLEMS AND THIS EXACERBATING WORLD SHORTAGE.

7. POST THEN REVIEWED NUMBER OF MANAGEMENT PROBLEMS INVOLVING CORRUPT PRACTICES ON PART OF INDONESIAN WORKERS. HE SAID ALCOA LIMITED OFFICIAL USE
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HAD ABOUT 1000 EMPLOYEES IN INDONESIA OF WHOM ONLY 8 WERE EXPATRIATES, WITH GOI URGING FOREIGN INVESTMENT IN LABOR INTENSIVE INDUSTRIES IT WAS TOO COSTLY TO RECRUIT MORE EXPATRIATE SUPERVISORS, BUT THIS IS WHAT WOULD BE NEEDED TO CURB CORRUPT ACTIVITIES ON PART OF INDONESIAN EMPLOYEES.

8. COMMENT: POST IS SELDOM AS FORTHCOMING AS HE WAS IN THIS CONVERSATION, AND HE WAS NOT ALL THAT FORTHCOMING. WE FREQUENTLY HAVE THE IMPRESSION HE IS HOLDING BACK INFORMATION. HOPEFULLY AS NOVEMBER 1974 APPROACHES AND ALCOA MUST DECIDE WHAT ROLE IT WILL PLAY IN ASAHAN WE WILL BE KEPT BETTER INFORMED. IT SEEMS TO US THAT INDONESIANS WILL SUGGEST ALCOA TO PROCESS ITS BAUXITE IN INDONESIA AND THAT, THEREFORE, ALCOA'S OPTIONS MAY NOT BE AS OPENMINDED AS POST'S REMARKS WOULD INDICATE ALCOA THINGS THEY ARE.
GALBRAITH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 27 JUL 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, ALUMINUM, BAUXITE, FOREIGN INVESTMENTS, HYDROELECTRIC POWER PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974JAKART00284
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740174/abbrzaua.tel
Line Count: 160
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. TOKYO 11503; B. JAKARTA 10386; C. TOKYO 0044
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2002 by kelleyw0>; APPROVED <03-Sep-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ALCOA AND THE ASAHAN PROJECT
TAGS: EMIN, ID
To: STATE INFO MEDAN
SURABAYA
TOKYO
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005